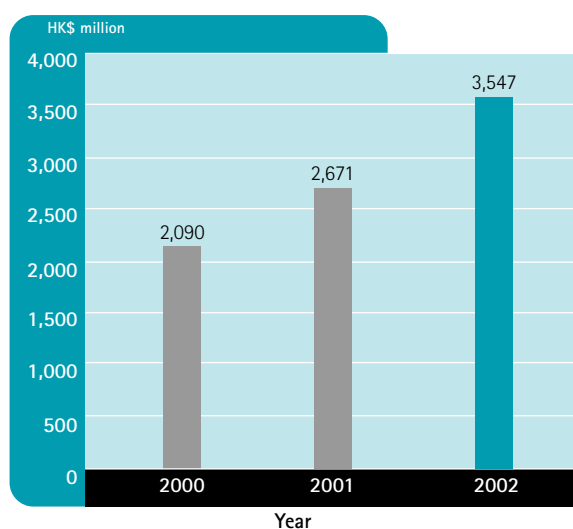


# MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

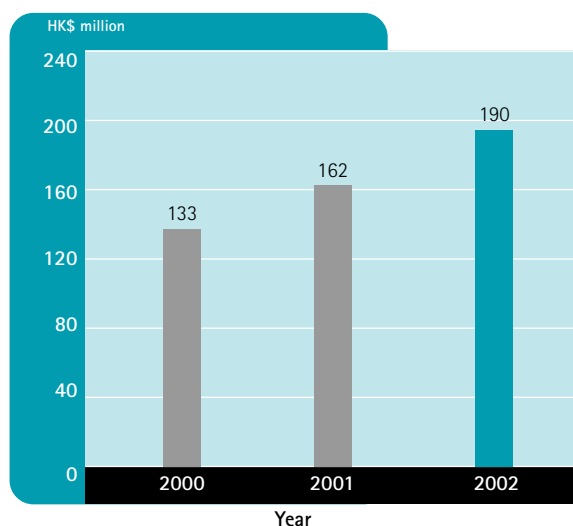
I am pleased to report encouraging operational and financial results for Pacific Andes International Holdings Limited ("Pacific Andes" or the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2002.

## Financial Highlights



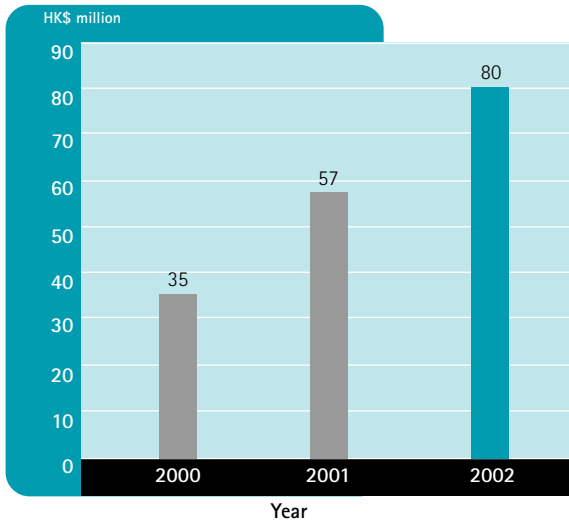
### Turnover

In fiscal year 2002, the Group recorded a 33% increase in turnover to HK\$3,547 million. The sales growth was primarily attributable to the increasing demand for frozen fish and seafood products from our existing markets.



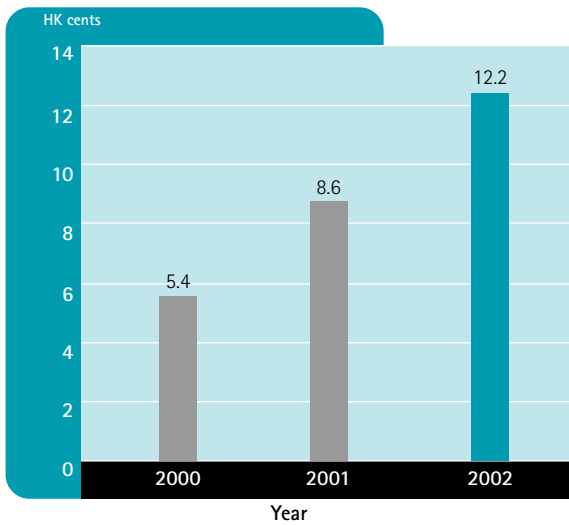
### Operating Profit

In the year, the Group recorded improved profitability. Operating profit increased by 18% to HK\$190 million.



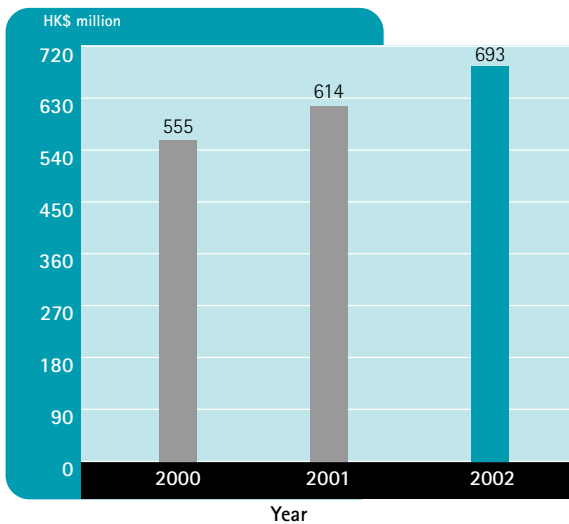
### Profit Attributable to Shareholders

Profit attributable to shareholders grew from HK\$57 million in 2001 to HK\$80 million, representing an increase of 41%.



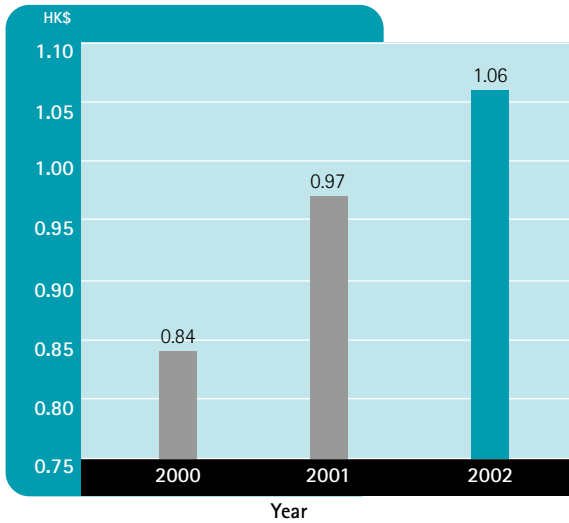
### Earnings Per Share

Reflecting our higher profitability, earnings per share for the year were HK12.2 cents, compared to HK 8.6 cents in 2001, an increase of 42%.



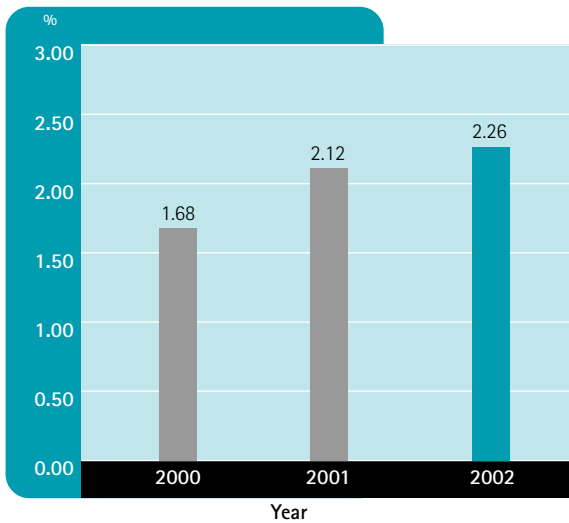
### Shareholders' Fund

Shareholders' fund increased by 9.36% to HK\$693 million.



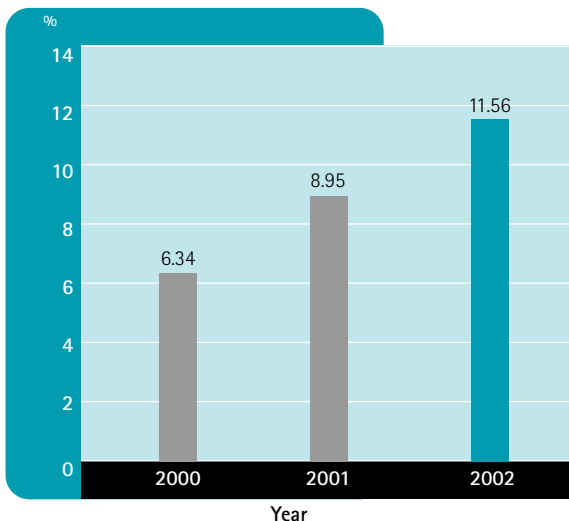
### Net Asset Value Per Share

Net asset value per share increased 9% to HK\$1.06 during the year, compared to HK\$0.97 last year.



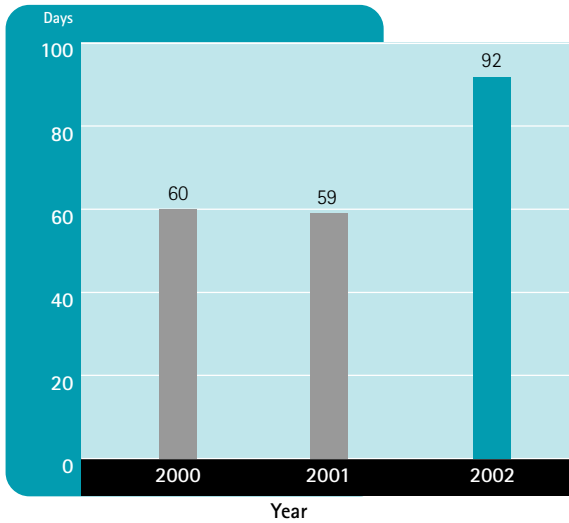
### Net Profit Margin

As a result of the Group's stringent cost control measures, the net profit margin rose from 2.12% to 2.26%.



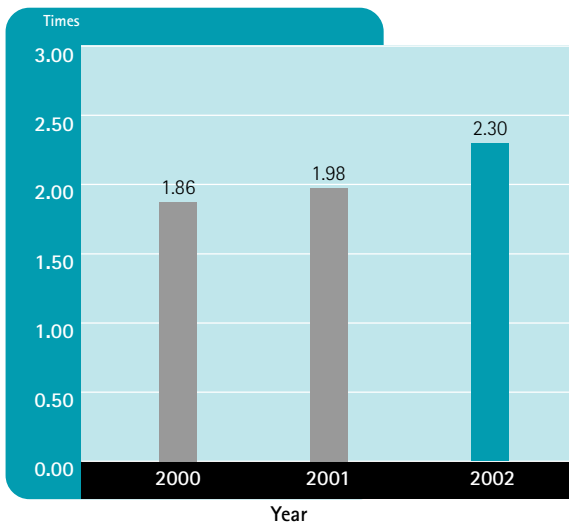
### Return on Shareholders' Fund

Benefiting from the improved profitability, the return on shareholders' fund improved from last year's 8.95% to 11.56%.



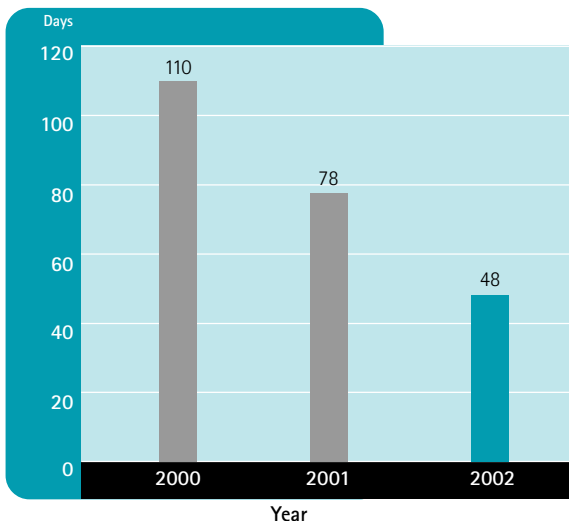
### Stock Turnover

The stock turnover rose from 59 days to 92 days in relation to the continuous increase in the PRC's demand for high value frozen seafood products, the temporary suspension of shipments to EU countries, and the delay and shortening in the fishing season of Group's species. All this contributed to an increase in the Group's inventory holding.



### Interest Cover

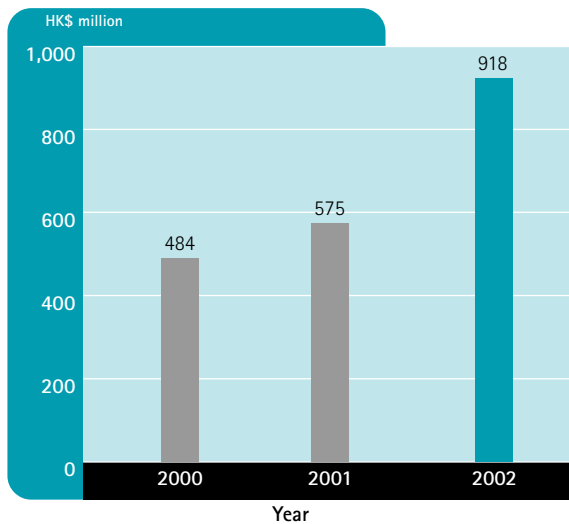
Interest cover improved to 2.30 times, compared to last year's 1.98 times, as the Group's operating margin improved.



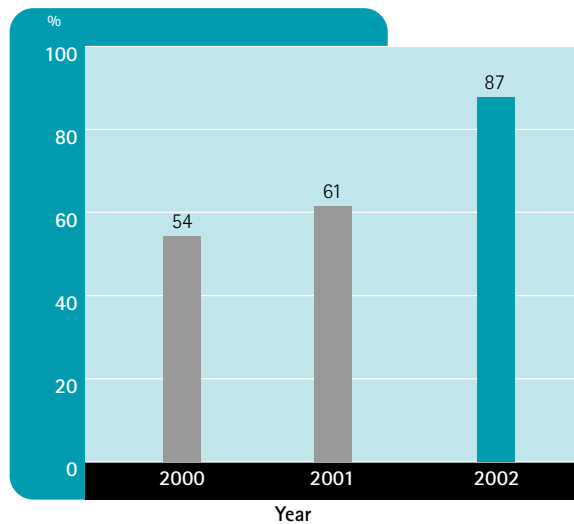
### Debtor Turnover

The debtor turnover period reduced from 78 days to 48 days. With the storage of inventory in warehouses in the PRC, the Group is able to reduce the credit period to its customers. This was achievable because of the ability to speed up delivery and the ability to cater to the demand for smaller quantities of goods.

## Total Borrowings Level



## Net Debt-to-Equity Ratio



### Total Borrowings Level and Debt-to-Equity Ratio

As of 31 March 2002, the net borrowings (net of cash and bank balances of HK\$101 million) stood at HK\$817 million. The net debt to shareholders' equity ratio was 87%. Net debt represents interest-bearing borrowings less discounting advances drawn on trade receivables with insurance coverage and cash and deposits with financial institutions. Equity comprises shareholders' funds and minority interests.

The increase in the borrowing levels is mainly attributable to the increase in inventory holdings due to the following:

- Sales increased 33% to HK\$3,547 million.
- The Group has, since October 2001, stepped up its distribution activities in the PRC by maintaining inventory in various warehouses for subsequent distribution to its customers.
- In January 2002, the Commission of the European Union ("EU Commission") prohibited the import of all products of animal-origin from the PRC into the EU. The prohibition was imposed due to the detection by the EU Commission of antibiotic residue in certain shrimp products imported from the PRC. Although the Group's seafood products were caught at the high sea and are not likely to be exposed to antibiotic contamination and the processing of the seafood products is subject to strict processing procedures and quality checks to meet the stringent specifications of the Group's customers in the EU and meet applicable European and international standards, our products export to the EU are not immune from the ban and were also prohibited.

After bilateral negotiations and discussions with government representatives from both the EU Commission and the PRC, the EU announced it would lift the ban on all the products handled by the Group with effect from 10 July 2002. This means that we are able to resume export to Europe.

- In anticipation of delays and shortening in the Alaska pollock fishing season due to reduction of fishing quota by the Russian government the Group made necessary provision by storing additional raw materials to cater for forthcoming orders.

## Appropriations

In line with the Group's dividend policy, the board of directors proposes to distribute one-third of the Group's net profit for payment to shareholders as dividends. As such, a final dividend of HK 4 cents per ordinary share has been proposed to shareholders.

The board of directors also proposes a bonus issue of warrants to shareholders whose names appear on the register of members on Monday, 16 September 2002 on the basis of one warrant for every five shares then held by the such shareholders. The bonus warrants will be issued in registered form and will be exercisable at any time from 26 September 2002 until 25 March 2004, both dates inclusive. Each bonus warrant will entitle the holder thereof to subscribe for one new share at an initial subscription price of HK\$0.85, subject to adjustment in accordance with the terms of the new warrants.

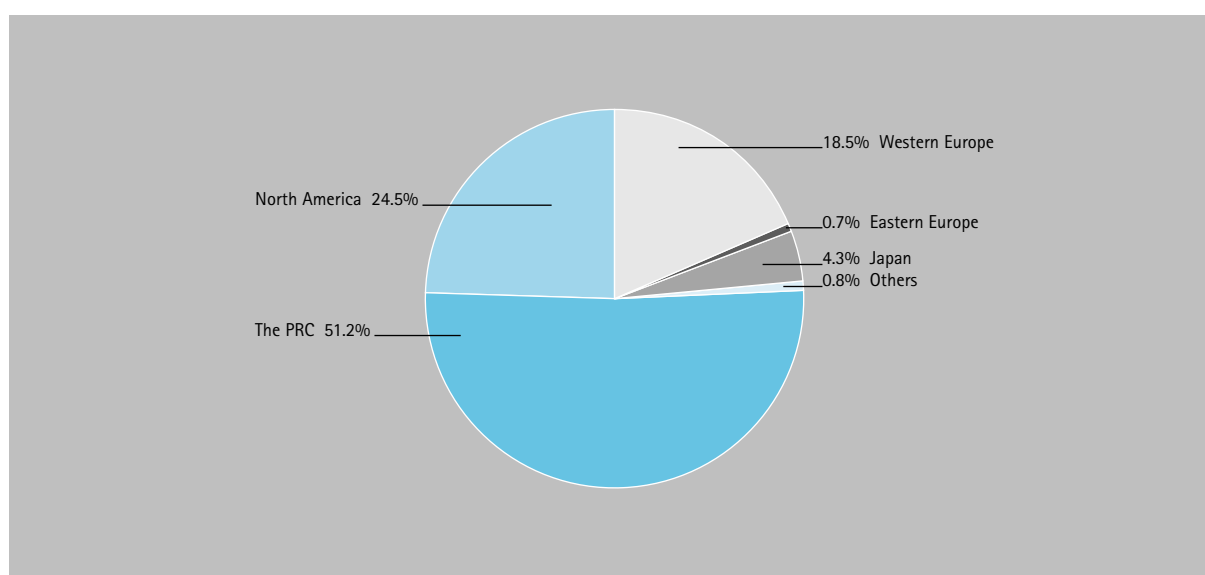
## Review of Business

This year produced a plethora of challenging surprises. The "911" attacks heightened the effects of an already weakening global economy and hindered inter-regional trading activities. Our business was not immune to the economic slowdown. The EU Commission's summarily ban on all products of animal origin imported from the PRC with effect from 31 January 2002, interrupted our customers and forced suspension of shipments to EU. Fortunately, after bilateral negotiations and discussions with government representatives from both the EU Commission and the PRC, our frozen fish products were exempted from the prohibition.

On a positive note, our vertically integrated business operation model provided a number of competitive advantages. In employing a balanced business strategy through customer, product and geographical diversity we were able to avoid the negative economic impact and to mitigate against the difficult operating environment. As a result, Pacific Andes has been able to continue achieving a highly positive performance.

## Operations Review

### Market Analysis



The PRC remains the Group's predominant major revenue source and pillar of growth, accounting for 51.2% of the Group's total sales mix for the year ended 31 March 2002. With improving living standards and changing eating habits, there was growing demand for our diversified products. Sales in the PRC market increased 32.4% to HK\$1,816 million, against HK\$1,371 million in the prior year.

In the second half of the year, we stepped up the distribution arrangement in the PRC. We maintained inventory in warehouses in the PRC for sale to our PRC customers. Under this distribution arrangement, we recorded sales of HK\$400 million. This remarkable result was supported by enhancing operations, flexibility, shortening delivery lead-times, in addition to consolidating relationships with our customers. This move will eventually improve our debtor turnover and reduce risk exposures, facilitating our further expansion of the distribution business.

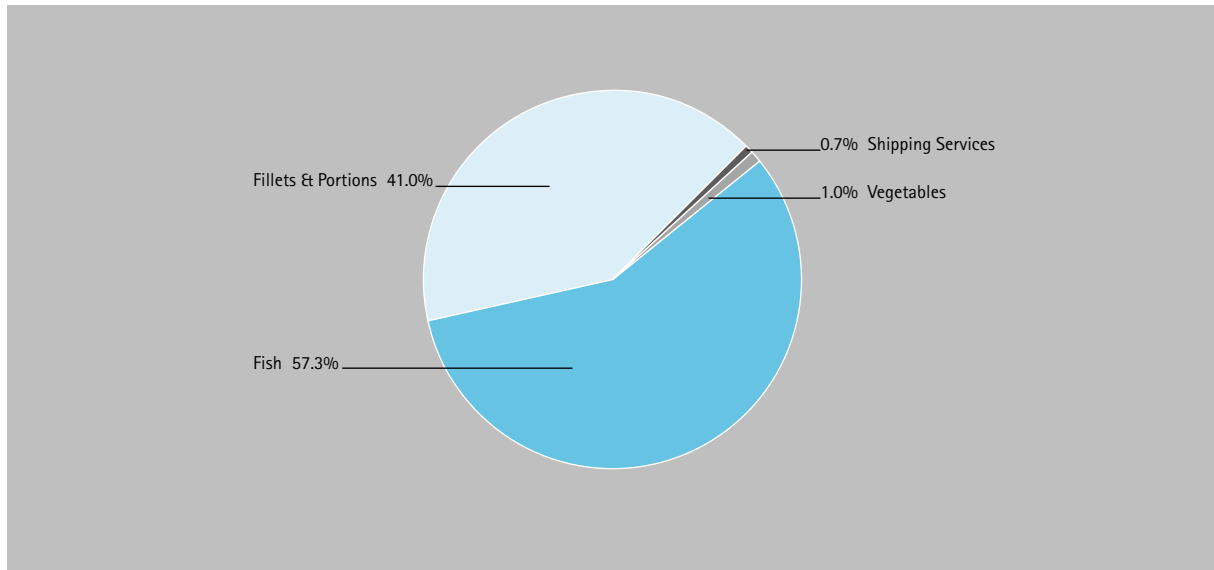
Accounting for 24.5% of the Group's total sales mix, and as Pacific Andes' second largest market, North America rebounded after stagnant sales in the first half of the year. Although the "911" attacks hit the sale of our higher priced products, our competitively priced and diversified frozen fish products proved to be well positioned to capture increasing demand in the U.S., particularly during the second half of the year. In fiscal year 2002, the overall North American market reported sales of HK\$868 million, rising 37.8% over last year.

During the year, the introduction of new fish species and new varieties of fish fillets and portions and the provision of better logistics services in Western Europe proved very successful. Although the suspension of shipments due to the import ban did affect sales during the last quarter, this market still reported a significant sales growth of 50.3% to HK\$657 million, accounting for 18.5% of the Group's total sales mix.

The sales contribution from Japan remained relatively insignificant at HK\$154 million, representing 4.4% of total turnover. However sales to Japan rebounded significantly in the second half of the year. Sales to Japan in the first half of year was HK\$66 million increasing to HK\$88 million in the second half of the year.

## Operations Review – continued

### Product Analysis



### Seafood Division

The seafood division of Pacific Andes has grown from a mere start-up operation in the mid 1980's, to one of the world's leading processor and supplier of frozen seafood. With a vertically integrated operation, we are able to source seafood products globally and to produce top quality seafood products at our processing facilities.

During the year, the Group sold approximately 268,000 metric tonnes of seafood products, an increase of 30.7% compared to 205,000 metric tonnes last year. Sales of seafood products rose 33.4% to HK\$3,489 million.

Heightened the health-consciousness amongst consumers has led to an increasing demand for natural products. For the year ended 31 March 2002, sales of frozen fish and of fish fillets and portions increased 29.9% and 38.7% respectively.

### Trading

During the year, sales of frozen fish accounted for 57.3% of the Group's total sales mix, amounting to HK\$2,034 million, representing an increase of 29.9% over the previous year. As a result of the Group's focus on the PRC market and the development of its distribution through inventory storage in warehouses in the country, it was able to attain better market penetration thereby boosting its sales and profitability during the 2002 financial year. These distribution arrangements provided the Group with improved flexibility and the ability to rapidly respond to the customers' delivery needs. In addition, the Group also intensified efforts to promote sales in the North American market. With competitive pricing and the ability to provide a range of diversified frozen fish products, Pacific Andes is well positioned to meet the increasing demand in North America.



## Operations Review – continued

### Product Analysis – continued

#### *Processing*

Our processing capabilities have been a crucial factor in our success. Our facilities are located throughout Shandong Province, the PRC. During the period under review, these facilities operated at full capacity, processing 60,000 metric tonnes of fish fillets and portions, which rose 33% against last year's output of 45,000 metric tonnes. To further expand and consolidate our processing capacities to meet increasing market demand, we are establishing a modern processing center at Hongdao, Qingdao, the PRC, which is expected to begin operating by mid-2003.

Positioning ourselves as a vertically integrated frozen food manufacturer and supplier, Pacific Andes has been exploring new opportunities to expand the product mix, further strengthening our market leadership. To this end, the Group has invested resources and tremendous management effort both in improving our processing facilities and marketing activities.

#### *Vegetable and Plantation Division*

Sales of vegetables recorded a turnover of HK\$35 million, representing a substantial increase of 170% over last year. The Western European market has been key in the vegetable business, accounting for 87% of its total sales. Although these sales remain insignificant by comparison to our seafood business, we are confident that with the expansion in the scale of our operations, this business segment will steadily contribute to our future growth.

To stay focused on our processing business and to maximize resource allocation, we made supply arrangements with specialist farmers in Shandong, Zhejiang, Gansu and Fujian provinces, the PRC, and worked closely with them to strictly monitor product quality. We also set up a model farm consisting of 370 hectares, to educate farmers with regard to the correct use of pesticides, irrigation, control and other farming techniques.

During the year, we continued our sales and marketing focus on Western Europe, our major market for our frozen vegetable products. We also are looking at opportunities to further penetrate North American and Japanese markets, particularly among our existing seafood customers who have extensive wholesale and retail operations. There is significant potential for us to offer more products in these markets. As such, we believe that our sales volume will substantially increase in the year ahead.

#### *Liquidity and Financial Resources*

At 31 March 2002, the Group had a cash balance of HK\$101 million. Bank borrowings of HK\$854 million were inventory loans, trust receipt loans, mortgage loans and bank overdrafts in nature. Based on the cash resources and sufficient banking facilities, the Group has strong liquidity and financial resources to meet the operation and investment needs.

The Group's exposure to currency risk is minimal as the Group does not maintain a significant open position in any foreign currency at any time. The Group actively protects its foreign currency vulnerabilities through natural hedges, forward contracts and options. Speculative currency transactions are strictly prohibited.

## Operations Review – continued

### Product Analysis – continued

#### *Liquidity and Financial Resources – continued*

At 31 March 2002, the Group has pledged land and buildings and investment properties with aggregate carrying values of approximately HK\$164 million and HK\$24 million respectively, as collateral for mortgage loans granted to the Group by certain banks.

In addition to trade receivables with insurance coverage of HK\$60 million and inventories of HK\$198 million were also pledged as security for the working capital facilities obtained from bankers.

In addition, shares in a subsidiary were pledged as securities for the working capital facilities obtained from bankers as mentioned above.

At 31 March 2002, bills discounted with recourse were HK\$254 million.

#### *Employees and Remuneration*

As at 31 March 2002, the Group had a total number of approximately 5,000 employees.

The Group recognises the importance of its employees who contribute to the business. The Group offers remuneration packages in line with industry standards, and they are subject to annual review. Bonuses may be awarded to employees based on individual performance and the Group's performance. Other staff benefits include medical allowance and mandatory provident fund. The Company and its non-wholly owned subsidiary, Pacific Andes (Holdings) Limited each has an employees' share option scheme to allow the granting of share options to selected eligible employees depending on their contribution to the Company.

## Outlook

Pacific Andes' strong commitment to quality will continue to enhance our competitive advantages and value-added opportunities now and into the future. The consistency and quality of our seafood products has allowed us to obtain extensive market share around the world, also promoting us to become one of the leading frozen food suppliers to the world markets.

Capitalizing on the growing demand for frozen seafood products and benefiting from economies of scale, Pacific Andes plans to construct a new state-of-the-art food processing center in Qingdao, the PRC at a total investment cost of US\$30 million. The reason for this is to consolidate our existing subcontracting processing bases scattered over Shandong province. The new processing centre will boost our productivity, enhance our capacity and provide us with further flexibility in producing value added products. With these improved operational efficiencies our position in the global market place will be further strengthened. Upon completion of the first phase of construction, the new manufacturing plant, will include 30,000 metric tonnes of cold storage facilities and a frozen fish fillets and portions processing plant with annual production capacity of 45,000 metric tonnes. In addition, we will introduce new processing technologies to enhance operational efficiencies, and cost-effectiveness. The first phase will be completed by mid 2003.

## Outlook – continued

The PRC will remain a major growth driver for Pacific Andes, especially with its entry to the WTO. With growing per capita income and improving living standards, smart consumers are seeking quality products. We are confident that we are headed in the right direction, growing our distribution business through inventory storage in warehouses to attain better market penetration in the PRC.

Realizing our goal of becoming a vertically integrated global frozen food company that harvests, sources, produces, processes, and markets nutritious frozen food products to meet the needs of value-oriented and health conscious consumers around the world, our development will be focused on organic growth, further integration, cost controls and production expansion.

## Appreciation

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our customers, suppliers, bankers, business partners and shareholders for their continuous support. I would also like to thank our many thousands of staff, as well as the fishermen for their endeavors at sea. We owe them many thanks. Their important contribution to the year's results is fully appreciated.

Looking forward, we will continue our hard work to sustain growth and bring in better returns for our shareholders.

Very truly yours,

**Ng Joo Siang**  
*Managing Director*

15 July 2002